IJM Corporation (IJM MK)

Reconciling IJM's Intrinsic Value

BUY (Maintained)	
Share Price	RM2.32
Target Price	RM3.15
Upside	+22.6%

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Highlights

- **IJM and M&A Securites released its IA report for Sunway's VTO,** arriving at a fair value of RM5.84-RM6.48 and deeming it neither fair nor reasonable.
- **We feel that the fair value appears stretched** with the valuation methodology being somewhat aggressive and not entirely representative of IJM's intrinsic value.
- **Maintain BUY and RM3.15 target price.** We would still advocate for investors to consider taking the offer. However, we acknowledge some risk surrounding the acceptance has emerged.
- **Nonetheless, current prices appear attractive** with potential upside based on our pre-VTO still coming in at around 15%, although there may be reactionary weakness immediately following the announcement.

Analysis

- **IJM's IA report deems deal unattractive…** IJM Corporation (IJM) and M&A Securities have just released the independent advisor (IA) report regarding Sunway Bhd's (Sunway) voluntary takeover offer (VTO). The report deems the offer not fair nor reasonable, arriving at a fair value range of RM5.84-RM6.48. Separately, IJM released a secondary valuation by Rothschild & Co, ranging from RM4.80-RM5.63 per share. Given that Sunway's offer represents a large discount to the fair value arrived by the IA report, IJM has advised shareholders to reject the offer.
- **…but valuations are optimistic.** We feel the fair value arrived at by the IA report to be stretched given the somewhat aggressive assumptions used as part of the valuation methodology. Addressing the discrepancies between our target price, the IA report includes: a) a higher construction PE multiple of 25.5x, b) a significantly higher and undiscounted RNAV of RM10b on its property segment, and c) optimistic cash flow assumptions for the infrastructure and property segment.
- **New timelines for monetisation efforts.** As part of the briefing, IJM clarified on its monetisation efforts, providing a potential timeline of two years to successfully capitalise its assets. While this previously only covered the infrastructure segment, management shared new details regarding the potential listing of its construction segment as a standalone, pure-play entity. While we do acknowledge monetisation as a key catalyst, we see execution risk in listing these entities at a premium to upcycle valuations as well as the accelerated timelines needed.

Key Financials

Year to 31 Mar (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5,919	6,252	6,210	6,473	7,064
EBITDA	1574	1363	1079	1143	1233
Operating profit	1273	1094	807	868	955
Net profit (rep./act.)	600	403	373	434	519
Net profit (adj.)	474	527	373	434	519
EPS (sen)	13.0	15.0	10.6	12.4	14.8
PE (x)	17.8	15.4	21.8	18.7	15.7
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	7.0	8.6	10.6	10.6	10.5
Dividend yield (%)	3.4	3.4	2.8	3.2	3.8
Net margin (%)	10.1	6.5	6.0	6.7	7.3
Net debt/(cash) to equity (%)	24.2	30.4	28.0	33.2	40.2
Interest cover (x)	5.1	4.8	3.9	3.9	3.9
ROE (%)	5.4	3.6	3.3	3.8	4.4
Consensus net profit	-		443	520	568
UOBKH/Consensus (x)	-	-	0.84	0.84	0.91

Source: IJM Corporation, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Industrials
Bloomberg ticker:	IJM MK
Shares issued (m):	3,506.2
Market cap (RMm):	8,132.0
Market cap (US$m):	2,063.8
3-mth avg daily t'over (US$m):	4.6

Price Performance (%)

52-week high/low				RM3.10/RM1.83
1mth	3mth	6mth	1yr	YTD
(11.5)	6.4	(20.3)	9.4	2.2

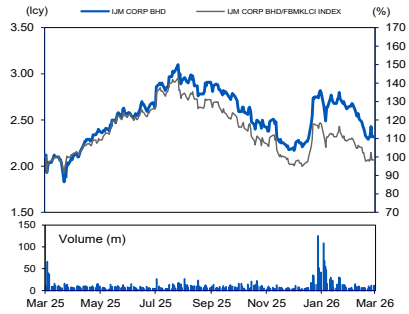
Major Shareholders

	%
Employees Provident Fund	20.5
Amanah Saham Nasional	12.9
KWAP	9.6

Balance Sheet Metrics

	%
FY27 NAV/Share (RM)	2.85
FY27 Net Debt/Share (RM)	0.69

Price Chart



Source: Bloomberg

Company Description

A conglomerate with exposure in construction, property, plantation and concession assets.

- **Broadly, we would still advocate for investors to consider the offer** as the premium offers decent upside. While the IA valuation appears unrealistic, we do acknowledge the structure of the VTO favours Sunway given the cash-light share-heavy consideration. However, we would still urge investors to consider taking the offer depending on their risk appetite and investment timelines given the execution risk and longer time horizon associated with crystallising IJM's value.
- **However, acceptance rate risk now a concern.** Given the growing noise surrounding the deal, we believe the risk of it not going through has risen since the initial announcement. While we continue to fundamentally advocate for investors to accept the deal, the share-heavy structure does reduce potential upside when taking into account Sunway's dividend-in-specie distribution and current share price (adjusted offer price: RM3.08 and RM2.80 respectively). Nonetheless, we still see value in IJM at its current price. Even if the deal is unsuccessful, our readjusted target price of RM2.71 (based on pre-VTO discount of 20% to SOTP) still represents a 15% upside. However, the share price could see reactionary weakness immediately after the close date for the offer should the deal fail to go through. Overall, while we are largely conservative on its prospects, IJM could present a compelling value proposition either way should it successfully monetise its assets and crystallise the value locked in some of its early stage projects.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM3.15.** Our target price is in line with the VTO offer price and represents 25.9x FY27F PE. This is around +2.0SD to its five-year mean.
- We have made some minor adjustments to our SOTP valuation methodology, now valuing the industry divisions separately for a fairer comparison.

Earnings Revision/Risk

- **None.**

Environmental, Social, Governance (ESG) Updates

Environmental

- Achieved emissions avoidance of 5,176 tCO2e in FY25 from renewable energy generation, waste recycled and the purchase of renewable energy certificates

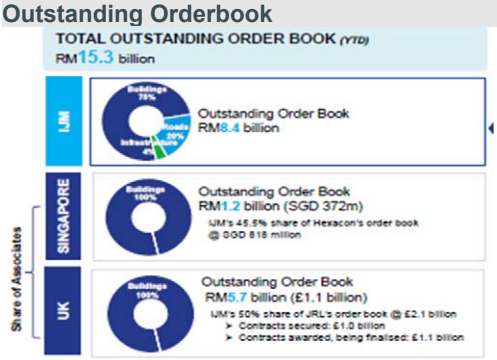
Social

- Spent RM2.4m in social contributions to support the community in FY25.

Governance

- Aligned with the principles of the Malaysian Code on Corporate Governance

Outstanding Orderbook



Source: IJM

IA SOTP Valuation

	Value (RMm)	Remarks
Construction	2,241	25.5x FY25 PE
Industry	2,384	14x FY25 PE
Infrastructure assets	6521-8732	Cost of equity 7-10%
Property	100,005	RNAV
Other Investments (Net of Debt)	-680	
Total SOP value	20,471-22,701	
Fair value/share (RM)	5.84-6.48	
Implied FY27F PE (x)	48.2-53.4	

Source: M&A Securities, IJM

SOTP Valuation

	Value (RMm)	Remarks
Construction	3,767	18x FY27F PE
Industry	3,388	15x FY27F PE
Infrastructure assets	3,529	Cost of equity 8%
Property	2,059	50% discount to RNAV
Other Investments	583	
Less: Net debt	-1,467	End-FY25
Total SOP value	11,859	
Enlarged sharebase	3,507	
FD SOP/share	3.38	
Discount	7%	
Fair value/share (RM)	3.15	
Implied FY27F PE (x)	25.9	

Source: UOB Kay Hian

Scenario Analysis

Outcome	Share Price (RM)	Discount to SOTP
Sunway VTO successful	3.15	7%
Share price reaches pre-VTO target valuations	2.71	20%
Reversion-to-mean valuations	2.37	30%
Price drops to 52-week trough	1.83	46%

Source: UOB Kay Hian

Profit & Loss

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Net turnover	6,252	6,210	6,473	7,064
EBITDA	1,363	1,079	1,143	1,233
Deprec. & amort.	269	272	275	278
EBIT	1,094	806	868	955
Associate contributions	(19)	12	46	83
Net interest income/(expense)	(283)	(277)	(295)	(312)
Pre-tax profit	791	541	619	726
Tax	(324)	(130)	(149)	(174)
Minorities	(14)	12	14	17
Preferred dividends	(50)	(50)	(50)	(50)
Net profit	403	373	435	519
Net profit (adj.)	527	373	435	519

Balance Sheet

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Fixed assets	4,913	6,081	7,246	8,408
Other LT assets	4,469	4,481	4,527	4,610
Cash/ST investment	2,450	3,010	2,749	2,252
Other current assets	9,937	9,053	9,371	10,126
Total assets	21,769	22,624	23,892	25,395
ST debt	1,874	1,849	1,965	2,081
Other current liabilities	3,650	4,053	4,756	5,642
LT debt	3,961	4,315	4,585	4,856
Other LT liabilities	954	939	958	998
Shareholders' equity	11,127	11,277	11,451	11,658
Minority interest	203	191	177	160
Total liabilities & equity	21,769	22,624	23,892	25,395

Cash Flow

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Operating	696	1,598	815	628
Pre-tax profit	791	541	619	726
Tax	(295)	(130)	(149)	(174)
Deprec. & amort.	269	272	275	278
Associates	19	(12)	(46)	(83)
Working capital changes	(343)	673	(139)	(372)
Other operating cashflows	254	254	254	254
Investing	(766)	(766)	(766)	(766)
Capex (growth)	(1,440)	(1,440)	(1,440)	(1,440)
Proceeds from sale of assets	878	878	878	878
Others	(204)	(204)	(204)	(204)
Financing	(314)	(261)	(298)	(348)
Dividend payments	(280)	(224)	(261)	(311)
Proceeds from borrowings	386	386	386	386
Others/interest paid	(420)	(423)	(423)	(423)
Net cash inflow (outflow)	(384)	572	(248)	(486)
Beginning cash & cash equivalent	2,846	2,450	3,010	2,749
Changes due to forex impact	(12)	(12)	(12)	(12)
Ending cash & cash equivalent	2,450	3,010	2,749	2,252

Key Metrics

Year to 31 Mar (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	21.8	17.4	17.7	17.5
Pre-tax margin	12.7	8.7	9.6	10.3
Net margin	6.5	6.0	6.7	7.3
ROA	1.9	1.7	1.9	2.1
ROE	3.6	3.3	3.8	4.4
Growth				
Turnover	5.6	(0.7)	4.2	9.1
EBITDA	(13.4)	(20.9)	6.0	7.8
Pre-tax profit	(18.0)	(31.6)	14.6	17.3
Net profit	(32.8)	(7.5)	16.5	19.3
Net profit (adj.)	11.1	(29.2)	16.5	19.3
EPS	15.6	(29.2)	16.5	19.3
Leverage				
Debt to total capital	51.5	53.8	56.3	58.7
Debt to equity	52.4	54.7	57.2	59.5
Net debt/(cash) to equity	30.4	28.0	33.2	40.2
Interest cover (x)	4.8	3.9	3.9	3.9

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